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State of Utah

DEPARTMENT OF NATURAL RESOURCES

MICHAEL R. STYLER
Executive Director

Division of Oil, Gas and Mining

JOHN R. BAZA
Division Director

June 9, 2015

CERTIFIED RETURN RECEIPT

7013 3020 0002 3659 5583

David Penney
Penney's Gemstones, LLC
2400 East 30 South
PO Box 312
Beaver, Utah 84713-0312

Subject: Review of Reclamation Surety, Penney's Gemstones, LLC, Lucin Variscite Mine, S/003/0034, Box Elder County, Utah

Dear Mr. Penney:

As you requested, the Division of Oil, Gas and Mining has re-calculated the reclamation cost for the Lucin Variscite mine (S/003/0034), using site specific conditions as determined during an inspection of the site with you in November 2013. The Division apologizes for the length of time it has taken to finalize this cost estimate, and extra time will be allowed for providing the additional surety discussed below. The Bureau of Land Management has reviewed the Division's calculations and has concurred with the amount.

The amount needed for the reclamation surety is \$23,900.00. Attached is the cost estimate used to determine this amount. Please update the surety and provide the reclamation contract by November 9, 2015. A copy of the reclamation contract form is enclosed, and it may also be obtained on the Division's web site at https://fs.ogm.utah.gov/PUB/MINES/Minerals_Related/FORMS/MR-RC-SMO.pdf.

The current reclamation surety (\$10,000.00) for this site is held by the BLM. You may provide the increased surety by 1) increasing the surety the BLM holds by \$13,900.00 (from the current \$10,000.00 to a total of \$23,900.00), or 2) providing a separate surety instrument for the increased amount, or 3) providing the Division with a single surety in the amount of \$23,900.00. If you provide a single replacement surety, the Division will request that the BLM release the surety it holds. Regardless of which agency holds the surety, both agencies need to be named as co-beneficiaries. You need to provide a reclamation contract to the Division, even if the BLM holds the surety.



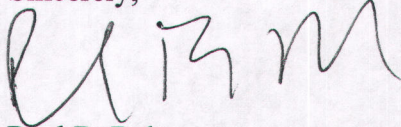
David Penney
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Please contact Penny Berry at pennyberry@utah.gov or 801-538-5291 for assistance with the reclamation surety and reclamation contract requirements. The surety may be provided in the form of a surety bond, a letter of credit, cash, or a certificate of deposit. While the Division is allowing approximately 150 days for the surety to be increased, **you may not expand the disturbance until the increased surety is submitted and the reclamation contract is signed and notarized and submitted to the Division.**

Failure to provide the reclamation contract and additional surety by November 9, 2015, may result in enforcement action being taken together with associated fines.

Please contact Lynn Kunzler at 801-538-5310 or me at 801-538-5261 if you have questions concerning this letter.

Sincerely,

A handwritten signature in black ink, appearing to read 'P. B. Baker', with a stylized flourish at the end.

Paul B. Baker
Minerals Program Manager

PBB:lk:pb

Attachment: Bond Calculation Worksheet; Reclamation Contract

cc: Michael Nelson, BLM (mnelson@blm.gov) w/attachment
David Penney via email (ep7art@mac.com)

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Lucin Variscite Reclamation Cost Calculation S/003/0034				Equipment Cost	Hourly Operating Costs	Equipment Overhead	Operator's Hourly Wage Rate	Hourly Cost	Total Equipment & Labor Costs	Units	Quantity	Units	Equip/labor time	Units	Cost
Direct Costs															
Grading - Main Dumps North & Northwest of Pit															
1 - Push upgradient waste dump material into pit (150ft)															
D8T (300 hp)	5460	100.65	0.1	76.75	337.62	337.62	/hr	2960	cu. yds.	7.5	hours	\$	2,539		
MSR260 A	2500	0	0.1	0	16	16	/hr			7.5	hours	\$	120		
PickupA	1015	0	0.1	0	6.34	6.34	/hr			7.5	hours	\$	48		
2 - Push down dump face to 2H:1V (<50 ft)															
D8T (300 hp)	5460	100.65	0.1	76.75	337.62	337.62	/hr	370	cu. yds.	0.4	hours	\$	146		
MSR260 A	2500	0	0.1	0	16	16	/hr			0.4	hours	\$	7		
PickupA	1015	0	0.1	0	6.34	6.34	/hr			0.4	hours	\$	3		
3 - Push bulk of dump into pit (100 ft @ even grade)															
D8T A	5460	100.65	0.1	76.75	337.62	337.62	/hr	4555	cu. yds.	9.7	hours	\$	3,291		
MSR260 A	2500	0	0.1	0	16	16	/hr			9.7	hours	\$	156		
PickupA	1015	0	0.1	0	6.34	6.34	/hr			9.7	hours	\$	62		
4 - Push half of the remaining dump material uphill to edge of pit (80 ft)															
D8T A	5460	100.65	0.1	76.75	337.62	337.62	/hr	2000	cu. yds.	4.2	hours	\$	1,435		
MSR260 A	2500	0	0.1	0	16	16	/hr			4.2	hours	\$	68		
PickupA	1015	0	0.1	0	6.34	6.34	/hr			4.2	hours	\$	27		
5 - Push dump matrial from Step 4 into pit (100 ft)															
D8T A	5460	100.65	0.1	76.75	337.62	337.62	/hr	2000	cu. yds.	4.7	hours	\$	1,589		
MSR260 A	2500	0	0.1	0	16	16	/hr			4.7	hours	\$	75		
PickupA	1015	0	0.1	0	6.34	6.34	/hr			4.7	hours	\$	30		
Grading - Smaller Northeast and Southeast Piles															
Grade Northeast piles down, and Push Southeast piles into pit (estimate)															
D8T A	5460	100.65	0.1	76.75	337.62	337.62	/hr	---	cu. yds.	5	hours	\$	1,688		
MSR260 A	2500	0	0.1	0	16	16	/hr			5	hours	\$	80		
PickupA	1015	0	0.1	0	6.34	6.34	/hr			5	hours	\$	32		
Push Small North Cuts/Dumps (estimate)															
D8T A	5460	100.65	0.1	76.75	337.62	337.62	/hr	---	cu. yds.	2	hours	\$	675		
MSR260 A	2500	0	0.1	0	16	16	/hr			2	hours	\$	32		
PickupA	1015	0	0.1	0	6.34	6.34	/hr			2	hours	\$	13		
Ripping & Seeding															
D8T A	5460	100.65	0.1	76.75	337.62	337.62	/hr	---	cu. yds.	3	hours	\$	1,013		
MSR260 A	2500	8.95	0.1	0	25	25	/hr			3	hours	\$	75		
PickupA	1015	0	0.1	0	6.34	6.34	/hr			3	hours	\$	19		
Spreader (Assumption)						15	/hr			3	hours	\$	45		
Seed Costs (Assumption)												\$	1,000		
Total Direct Costs											36.7	\$ 14,268			
Indirect Costs															
Daily Personnel Mob/Demob	285	24.55	0.1	76.75	34.84	34.84	/hr	Days	5	Daily Tr	4.1	Labor M/D Hours	20.33	Total Labor M/D Cost	\$ 708
Equipment Mob/Demob (from modified Division mob/demob)															\$ 5,644
Other Indirect Costs (typical 26.8% of Direct Costs, minus 10% for already-included mob/demob)											16.80%				\$ 2,397
Total Indirect Costs															\$ 8,749
Total 2015 Reclamation Cost															\$ 23,017
2015 Escalation Rate															1.2%
Total Reclamation Cost (adjusted to 2018 Dollars)															\$ 23,900

Site-Specific Details and Assumptions

These calculations assume **current conditions**. If the operator plans to significantly deepen the pit and expand the dumps, these calculations should be revised.

Volume calculations assume the following:

- The curved dump has an average cross-sectional area of approximately 1200 square feet, and the dump is 250 feet long.
- An estimated 1500 cubic yards (of the estimated 11,100 cubic yards of dump material) will remain as graded slopes (won't be pushed up into pit)

See Production Sheets for earthworking activities and equipment assumptions.

Topsoil is not available, and is not required for successful revegetation in this case.

Ripping costs are conservative assumptions greater than a back of the envelope calculated time.

Equipment and labor costs are taken from R.S. Means 2015 Heavy Construction Cost Data handbook, which is assumed to be conservative for this project.

For example, Davis Bacon wages for Box Elder county for operating this type of heavy equipment are well under \$30/hr. The difference should cover any overtime.

Seed cost is assumed, and is conservative for current conditions.

Equipment mob/demob was based on the Division's average cost per acre for this location, and modified to be more appropriate.

Labor mob/demob time was determined using the following:

Travel Distanc	122
Average Spe	60
1-way Travel	2.03
Daily Travel	4.1